

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 NEA-10 ISO-00 SPC-03 AID-20

NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 L-03 H-03 DRC-01 /170 W

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R 241720Z OCT 73

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 8978

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMEMBASSY OTTAWA

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY OSLO

AMEMBASSY THE HAGUE

AMEMBASSY ISLAMABAD

AMEMBASSY DACCA

C O N F I D E N T I A L SECTION 1 OF 2 BRUSSELS 6069

E. O. 11652 GDS

TAGS: EFIN, PK, BD, BE

SUBJECT: PAKISTAN-BANGLADESH DEBT

REF: STATE 208687

1. SUMMARY: WE CONSULTED WITH APPROPRIATE BELGIAN OFFICIALS ON OCTOBER 23 AND 24. THEY EXPRESSED APPRECIATION FOR EARLY APPROACH BY USG ON THIS MATTER. INFORMAL BUT PROBABLY AUTHORITATIVE INITIAL REACTION WAS PREFERENCE FOR OPTION (1) OF THOSE OUTLINED IN REFTEL. END SUMMARY.

2. WE INITIATED DISCUSSION PAKISTAN-BANGLADESH DEBT WITH MARCEL
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D'HAEZE, DIRECTOR GENERAL OF THE TREASURY AND THEN CONTINUED

IN MORE EXHAUSTIVE INFORMAL MEETING WITH JEAN DARON, DIRECTOR EXTERNAL MARKETS (ASIA AND FAR EST) MINFORAFFAIRS, AND TO MIN-FINANCE OFFICIALS. D'HAENZE EMPHASIZED THAT GOB INTERESTED IN COOPERATING WITH OTHER CREDITORS IN FINDING ACCEPTABLE SOLUTION TO PAKISTAN-BANGLADESH DISPUTED DEBT PROBLEM. FINAL DECISION ON BELGIAN POSITION WILL BE TAKEN IN MINFORAFFAIRS.

3. AFTER HEARING OUR PRESENTATION BASED ON REFTEL, BELGIAN GAVE REACTIONS TO SPECIFIC QUESTIONS (PARA 7 REFTEL) WHICH ARE SUMMARIZED BELOW. THESE COMMENTS ARE, OF COURSE, NOT YET OFFICIAL BUT CLEARLY REPRESENT THE THINKING WITHIN THE GOB.

4. CHOICE OF OPTIONS: BELGIANS BELIEVE OPTION (3) IS BEST FROM CREDITORS' POINT OF VIEW AS WELL AS SIMPLEST WAY OF SETTLING CONTINUOUS ISSUE OF RESPONSIBILITY FOR DISPUTED PORTION OF DEBT. HOWEVER, THEY ARE CONVINCED GOP WILL CONSIDER IT UNACCEPTABLE AND, THEREFORE, SUPPORT OPTION (1). OPTION (2) IS UNACCEPTABLE TO GOB BOTH AS MATTER OF PRINCIPLE AND FEAR OF PRECEDENT.

5. PROS AND CONS OF EACH OPTION:

A. OPTION (3) PROBABLY NOT ACCEPTABLE TO GOP. EVEN IF GOP COULD BE TEMPTED, PRICE REQUIRED (IN OVER GENEROUS RESCHEDULING TERMS) MIGHT BE TOO HIGH.

B. OPTION (2) WOULD BE DANGEROUS PRECEDENT WHICH WOULD BE QUICKLY SEIZED UPON BY OTHER DEBTOR COUNTRIES. ALSO, GOB SEES NO REASON FOR CANCELLING THE DEBT IN QUESTION WHICH WAS ASSUMED IN PRESUMABLY GOOD FAITH BY A LEGITIMATE GOVERNMENT. WHILE GOB WOULD HAVE NO LEGISLATIVE PROBLEM IN WRITING OFF DISPUTED DEBT (CABINET HAS AUTHORITY), IT APPRECIATES THAT USG AND OTHER CREDITORS WOULD REQUIRE LEGISLATIVE AUTHORITY, THE REQUEST FOR WHICH COULD POSE INTERNAL POLITICAL PROBLEMS.

C. OPTION (1) IS LEFT AS MOST VIABLE CHOICE. SEPARATE TERMS FOR A UNIQUE DEBT AVOIDS CREATION OF PRECEDENT. GOB AGREES THAT OFFER OF "VERY FAVORABLE" TERMS FOR DISPUTED PORTION OF DEBT OFFERS MEANINGFUL CARROT FOR GOP, PARTICULARLY WHEN COMBINED WITH RESCHEDULING OF DEBT SERVICE HUMP. BELGIANS POINTED OUT THAT OPTION (1) COULD EASILY BECOME DE FACTO OPTION (2) IF TERMS FOR DISPUTED DEBT ARE SO GENEROUS AS TO MEAN NO EFFECTIVE REPAYMENT OR IF THEY PERMIT SELECTIVE RENUNCIATION LATER BY GOP OF THE DISPUTED DEBT. THE BELGIANS WERE NOT TOO DISTURBED BY THIS

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POSSIBILITY AS THEY CONSIDER THE RISK UNAVOIDABLE. BELGIANS COMMENTED (IN OBSERVATION SIMILAR TO ONE IN REFTEL) THAT RESCHEDULING OF DEBT SERVICE HUMP MIGHT REQUIRE GRANTING OF SUCH CONCESSIONAL TERMS AS TO SET A PRECEDENT FOR OTHER DEBT PROBLEMS BUT AGAIN SEE NO CHOICE. IN ANY CASE ACTUAL TERMS ARE MATTER OF NEGOTIATION FOLLOWING AGREEMENT OF BASIC PRINCIPLES.

6. BELGIAN OPINION OF PAKISTANI REACTION: BELGIANS BELIEVE

GOP WOULD REJECT OPTION (3), ACCEPT WILLINGLY OPTION (2), AND HAVE NO INITIAL ENTHUSIASM FOR OPTION (1). ACTUAL RESCHEDULING TERMS OFFERED (FOR BOTH "DISPUTED" AND "NORMAL" DEBTS) MAY BE DETERMINING FACTOR IN GOP ATTITUDE. BELGIANS EXPECT CERTAIN AMOUNT OF HARD BARGAINING BEFORE PAKISTANIS ACCEPT.

7. BELGIANS HAVE NO OTHER OPTIONS OR APPROACHES TO SUGGEST AT THIS TIME. HOWEVER, THEY APPRECIATE OUR INTEREST IN THEIR VIEWS AND WILL PROVIDE US IN VERY NEAR FUTURE WITH AN "INFORMAL" PAPER OUTLINING THEIR THOUGHTS IN SOME DETAIL. THEIR PAPER WILL INCLUDE ANY NEW IDEAS THAT OCCUR TO THEM.

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8. WHILE THEY HAVE NO SIGNIFICANTLY NEW OPTIONS TO PROPOSE, BELGIANS SUGGEST THAT OPTION (1) MIGHT BE MODIFIED TO INCLUDE

POSSIBILITY OF LATER PAKISTAN-BANGLADESH AGREEMENT ON SHARING OF DISPUTED DEBT. THIS CLAUSE COULD BE EXPLICIT OR IMPLICIT IN FINAL AGREEMENT BUT BOTH GOP AND GOBD SHOULD BE AWARE THAT AGREEMENT WRITTEN TO COVER THAT EVENTUALITY WITHOUT PREJUDICE TO "VERY FAVORABLE" RESCHEDULING TERMS. BELGIANS STILL FEEL THAT BEST SOLUTION OF DISPUTED DEBT PROBLEM WOULD INVOLVE ITS DIVISION BETWEEN GOP AND GOBD AND THAT PAKISTAN CONSORTIUM OUGHT TO WORK TOWARDS THAT END. NEVERTHELESS, THEY APPRECIATE INCREASING URGENCY AS FEBRUARY APPROACHES AND THAT PAKISTANI WILLINGNESS (ALBEIT GRUDGINGLY) TO ACCEPT RESPONSIBILITY FOR FULL DEBT OFFERS ONE WAY OUT FOR CREDITORS. CONFIDENTIAL

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BELGIANS TOYED WITH IDEA OF MAKING PAKISTAN-BANGLADESH AGREEMENT ON DIVISION OF DISPUTED DEBT AS REQUIREMENT FOR OTHER RESCHEDULINGS, I. E. PAKISTAN NORMAL DEBT AND BANGLADESH PROJECT DEBT, BUT FINALLY DECIDED THAT THAT APPROACH UNWIELDY AND ALMOST CERTAINLY NOT FEASIBLE IN TIME AVAILABLE. ABOVE COMMENTS BY BELGIANS, THEREFORE, MADE WITHIN CONTEXT OF PAKISTANI ACCEPTANCE OF OBLIGATION FOR SERVICING DISPUTED DEBT.

9. BELGIANS AGREE THAT TIME PRESSES ON THIS MATTER AND EXPRESSED HOPE THAT USG WILL TAKE LEAD IN ORGANIZING AGREED CONSORTIUM POSITION PRIOR TO FEBRUARY MEETING.

10. PAKISTAN EMBASSY BRUSSELS RECENTLY APPROACHED GOB WITH REQUEST FOR ADJUSTMENT OF RESCHEDULING TERMS CURRENTLY IN FORCE UNDER THIS YEAR'S INTERIM AGREEMENT. REQUEST DEALT WITH DEFINITION OF DEBT BASE, FINANCE CHARGES, AND LENGTH OF REPAYMENT. PAKISTANIS, WHO SAID THAT SIMILAR APPROACHES WERE BEING MADE IN MAJORITY OF PAKISTAN CONSORTIUM CAPITALS, DID NOT RPT NOT RAISE ANY ISSUE RELATING TO DISPUTED DEBT OR UPCOMING RESCHEDULING NEGOTIATIONS. STRAUSZ-HUPE

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